

Message Text

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SUBJ: BRIEFING PAPERS FOR DEPUTY SECRETARY'S VISIT

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1. IN RESPONSE TO REFTEL EMBASSY SUBMITS BRIEFING PAPER
ON THE DOMESTIC POLITICAL/ECONOMIC SCENE.

2. DOMESTIC POLITICAL SCENE: THE MARCH 1977 ELECTION TO
PARLIAMENT'S LOWER HOUSE, THE LOK SABHA, WAS A WATERSHED
EVENT IN INDIA'S POST-INDEPENDENCE HISTORY. THIRTY YEARS
OF RULE BY THE CONGRESS PARTY WAS ENDED AND A NEW GOVERN-
MENT INSTALLED BY THE JANATA PARTY, AN AMALGAM OF THE
FOUR NON-COMMUNIST OPPOSITION PARTIES PLUS A GROUP OF
DEFECTORS FROM THE CONGRESS ITSELF. IN THE MONTHS SINCE
MARCH, MARARJI DESAI'S GOVERNMENT HAS REESTABLISHED
INDIA'S DEMOCRATIC FRAMEWORK AND RESTORED A FREE PRESS,
INDEPENDENT JUDICIARY, AND RESPECT FOR HUMAN RIGHTS. IT
HAS APPOINTED VARIOUS COMMISSIONS TO INVESTIGATE THE
ALLEGED MISDEED OF THE PREVIOUS REGIME, AND NEW REVELATIONS
CONCERNING ABUSES OF POWER APPEAR REGULARLY IN THE PRESS.

3. THE JANATA GOVERNMENT IS PLEDGED TO "DECENTRALIZE"
ECONOMIC AND POLITICAL POWER AND TO GIVE GREATER EMPHASIS
TO RURAL DEVELOPMENT AND COTTAGE INDUSTRIES. THUS FAR,
HOWEVER, IT HAS TAKEN FEW CONCRETE STEPS TOWARD THIS GOAL.

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AS PRIME MINISTER DESAI RECENTLY TOLD A GROUP OF VISITING
WHITE HOUSE FELLOWS, HIS GOVERNMENT'S FIRST TASK IS TO
"CLEAR AWAY THE DEBRIS" LEFT BEHIND BY MRS GANDHI'S
REGIME.

4. ASSEMBLY ELECTIONS HELD IN MANY OF INDIA'S STATES
LAST MONTH PRODUCED RESOUNDING JANATA VICTORIES IN MOST

AND REPRESENTED A RENEWAL OF THE POPULAR MANDATE WHICH THE PARTY RECEIVED IN MARCH. AT THE SAME TIME, THE OVERWHELMING VICTORIES SCORED BY LOCALLY-BASED PARTIES IN THREE STATES (THE COMMUNIST PARTY (MARXIST) IN WEST BANGAL, SHEIKH ABDULLAH'S NATIONAL CONFERENCE IN KASHMIR AND A SOUTH INDIAN PARTY IN MADRAS) DEMONSTRATED THE CONTINUING APPEAL OF REGIONAL LEADERS AND PARTIES AND REINFORCED JANATA'S IMAGE AS ESSENTIALLY A PARTY CONFINED TO THE NORTHERN HINDI-SPEAKING STATES, WHERE IT HAD WON ITS PARLIAMENTARY VICTORY. THE JANATA STILL FACES A MAJOR TASK IN ESTABLISHING ITSELF AS A TRULY ALL-INDIA PARTY.

5. THE RULING PARTY ALSO CONTINUES TO BE PLAGUED BY FACTIONALISM AND JOCKEYING FOR POWER, A REFLECTION OF ITS HETEROGENEOUS NATURE. DESPITE THESE PROBLEMS, THE NEW PARTY SEEMS LIKELY TO HANG TOGETHER, AND CONTINUE IN OFFICE, THOUGH IT MAY BE YEARS BEFORE THE PREVIOUS LOYALTIES OF ITS COMPONENT PARTS ARE FULLY ERASED.

6. ALTHOUGH TWICE ROUTED IN ELECTIONS AND THOROUGHLY DEMORALIZED, THE CONGRESS PARTY REMAINS A POTENT FORCE IN INDIAN POLITICS. IT HOLDS OVER A QUARTER OF THE SEATS IN THE LOK SABHA AND CONTINUES TO CONTROL THE UPPER HOUSE OF PARLIAMENT, THUS SUGGESTING THAT IT HAS THE POTENTIAL TO OBSTRUCT GOVERNMENT POLICIES. IT IS STILL UNCERTAIN, CONFIDENTIAL

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HOWEVER, WHETHER OR NOT MRS GANDHI CAN REHABILITATE HERSELF AS A NATIONAL POLITICAL LEADER. THE RECENT AGREEMENT BETWEEN THE JANATA AND CONGRESS PARTIES ON A CONSENSUS CANDIDATE IN THE AUGUST 6 PRESIDENTIAL ELECTION IS A GOOD AUGURY FOR COOPERATIVE RELATIONS IN THE FUTURE BETWEEN INDIA'S TWO MAJOR POLITICAL PARTIES.

7. DOMESTIC ECONOMIC SCENE: THE DESAI GOVERNMENT FACES THE DIFFICULT TASK OF STIMULATING THE ECONOMY WHILE RESTRAINING INFLATIONARY PRESSURES. IN THE INDIAN FISCAL YEAR ENDING LAST MARCH 31, OVERALL GROWTH WAS REDUCED TO 0 TO 2 PERCENT AS A RESULT OF THE DROP IN AGRICULTURAL PRODUCTION AFTER A OUTSTANDING HARVEST IN 1975-1976. DESPITE THIS DROP, THE LAST TWO CROPS HAVE BEEN THE LARGEST IN INDIA'S HISTORY. FOODGRAIN STOCKS NOW EXCEED 20 MILLION TONS -- IN EXCESS OF THE COUNTRY'S NEEDS AND BADLY OVER-STRAINING ITS STORAGE CAPACITY. THE SUMMER MONSOON RAINS HAVE BEGUN VERY WELL AND, IF THEY CONTINUE TO BE FAVORABLE, SHOULD PRODUCE ANOTHER GOOD CROP. LONG TERM GROWTH IN THE AGRICULTURAL SECTOR, HOWEVER, IS BARELY ADEQUATE.

8. IN CONTRAST TO AGRICULTURAL PRODUCTION, INDIAN INDUSTRY PERFORMED VERY WELL LAST YEAR, WITH A GROWTH RATE OF 10 PERCENT FOLLOWING A STRONG PERFORMANCE THE YEAR BEFORE. THIS RECORD WAS LARGELY THE RESULT OF GREATER CAPACITY UTILIZATION AND INCREASED EFFICIENCY OF THE PUBLIC SECTOR, IN WHICH THE BUREAUCRATIC DISCIPLINE OF MRS GANDHI'S EMERGENCY PLAYED A LARGE PART. CONSUMER DEMAND CONTINUES TO BE TOO LOW, HOWEVER, AND NEW PRIVATE INVESTMENT IS INADEQUATE.

9. OTHER DANGERS WILL REMAIN: LABOR UNREST -- IN THE WAKE OF TWO YEARS OF GOVERNMENT SUPPRESSION -- MAY ONCE AGAIN BECOME AN OBSTACLE TO ECONOMIC GROWTH. AND A RESURGENCE OF A BLACK MARKET AND SPECULATIVE TRADING
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COULD DESTABILIZE PRICES. NONETHELESS, THE EXCELLENT FOOD STOCKS AND A GOOD BALANCE OF PAYMENTS AND FOREIGN EXCHANGE POSITION, COMBINED WITH THE GOVERNMENT'S DETERMINATION TO PURSUE AN ACTIVE DEVELOPMENT PROGRAM (SEE SEPARATE PAPER), ARE GROUNDS FOR CAUTIOUS OPTIMISM ABOUT THE PROSPECTS FOR THE ECONOMY.
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